EXHIBIT E-5

based on the pricing in the arrangement, and recognized the remaining revenue on the delivered products. On a restated basis, Sonus has deferred all revenue until all elements of the transaction were delivered because it was not able to establish VSOE for the undelivered product or, in some instances, because such undelivered product was essential to the functionality of the delivered product.

Customer acceptance

Sonus identified certain circumstances where revenue was recognized in a period other than one in which acceptance was achieved or other contingencies were resolved. As restated, revenue from such arrangements is recorded in the period in which customer acceptance occurred or other contingencies were resolved.

Other

In addition to the above, Sonus identified several errors affecting revenue. Sonus identified one instance in which it provided equipment to satisfy a contractual requirement, for which Sonus has reclassified $274,000 from cost of revenues to reduction of revenue in 2001. Sonus identified another transaction in which a customer provided it with equipment valued at $511,000 as part of a contractual renegotiation. Sonus previously did not record this component of the transaction and, on a restated basis, has increased its fixed assets and revenue by $386,000 in 2002 and by $125,000 in 2003.

Summary

The following table is a reconciliation of revenue as previously reported to amounts as restated for the periods indicated, in thousands:

	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Revenues, as previously reported	$ 62,558	$ 173,199
Revenue Restatement Adjustments:		
Deferral of product revenue	34,644	(35,389)
Maintenance revenue	(10,910)	(3,656)
Delivery	3,898	(3,920)
Customer acceptance	2,285	(2,275)
Other	1,442	841
Total Revenue Restatement Adjustments	31,359	(44,399)
Revenues, as restated	$ 93,917	$ 128,800

Expense Adjustments

Accrued expenses

Sonus identified several accrued expense accounts that required adjustment to be in accordance with SFAS No. 5, *Accounting for Contingencies.* In most instances, Sonus lacked adequate support to assess either the probability or estimability for those contingencies for which Sonus has adjusted.

The following table is a reconciliation of accrued expense adjustments by category as of the dates indicated, in thousands:

	Dec. 31, 2002	Dec. 31, 2001
Accrued expense adjustments—increase/(decrease) for:		
Employee compensation and related costs	$ 208	$ 1,217
Professional fees	(1,239)	(1,544)
Royalties	1,492	(1,360)
Warranty reserve	(3,385)	(2,378)
Post–shipment obligations to customers	(2,527)	(2,800)
Customer deposits	(7,240)	—
Other	(4,199)	(2,360)
Total accrued expense adjustments	$ (16,890)	$ (9,225)

Restructuring expense and benefits

In connection with our review and analysis, Sonus determined that a restructuring benefit of $16,557,000 for a lease renegotiation originally recorded in 2002 should have been recorded in 2001. In addition, Sonus reduced 2001 restructuring expense and related accruals by $1,929,000 related to balances that lacked support and increased 2002 expenses by $1,306,000. The effect of these adjustments was to reduce restructuring expense from $25,807,000 to $7,321,000 in 2001, and to adjusted the restructuring item from a benefit of $10,125,000 to an expense of $7,739,000 in 2002.

Valuation of Intangibles

During 2001, Sonus acquired two companies, telecom technologies, inc. (TTI) and Linguateq, Inc. (Linguateq). Sonus accounted for the TTI acquisition as a purchase in accordance with Accounting Principles Board (APB) No. 16, *Business Combinations,* and for Linguateq as a purchase in accordance with SFAS No. 141, *Business Combinations.* In connection with the TTI acquisition re–appraisal by a third party, Sonus has re–examained the total consideration paid, net liabilities assumed, and certain assumptions and calculations supporting the original appraisal of the identified intangible assets acquired from TTI. These assumptions included the customer turnover rate, the gross and operating margin percentages and inconsistencies in the profit assumptions used to value in–process research and development (IPR&D) compared to other identified intangible assets. The results of these changes to the purchase price and related allocation for the TTI acquisition are as follows:

Purchase Price of TTI	As Reported	Adjustments	As Restated
		(in thousands)	
Fair market value of shares issued	$ 527,613	$ (612)	$ 527,001
Liabilities assumed	21,184	(1,375)	19,809
Acquisition expenses	5,833	(67)	5,766
Total	$ 554,630	$ (2,054)	$ 552,576

As a result of re–appraisal of assets acquired, the final purchase price has been allocated to the tangible and intangible assets acquired based upon their fair values as follows:

Purchase Price Allocation of TTI	As Reported	Adjustments	As Restated
		(in thousands)	
Tangible assets	$ 8,296	$ 1,096	$ 9,392
Intangible assets:			
Workforce	3,000	3,900	6,900
Developed technology	11,900	2,100	14,000
Customer relationships	17,400	6,800	24,200
In–process research and development	40,000	800	40,800
Deferred compensation related to unvested stock options	22,600	—	22,600
Goodwill	451,434	(16,750)	434,684
Total	$ 554,630	$ (2,054)	$ 552,576

In connection with the revised appraisals, Sonus has determined that the useful life of the TTI customer relationships and goodwill should be five years, compared to three years as previously reported. The impact to amortization expense as a result of the change in estimated useful lives and valuation of intangibles was an increase of $2,715,000 for the year ended December 31, 2002 and a decrease of $37,208,000 for the year ended December 31, 2001.

Impairment

In 2001, in light of negative industry and economic conditions, a general decline in technology valuations, and its decision to discontinue the development and use of certain acquired technology, Sonus performed an assessment of the carrying value of goodwill and purchased intangible assets from TTI recorded in connection with SFAS No. 121, *Accounting for the Impairment of Long–lived Assets and Assets to be Disposed of,* and originally recorded an impairment charge of $374,735,000. Due to the changes in the valuation of intangible assets and their useful lives described above and the use of more appropriate revenue projections supporting the impairment calculation performed under SFAS No. 121 in 2001, Sonus performed a new impairment assessment with the assistance of a new third–party

appraiser, which resulted in the following impairment charge (after the reallocation of goodwill to the purchased intangibles):

SFAS No. 121 Impairment of Assets Acquired from TTI As Reported	Impairment Charge for the year ended December 31, 2001	Remaining Value as of December 31, 2001
	(in thousands)	
Customer relationships	$ 200,217	$ 2,308
Developed technology	138,715	—
Workforce	34,084	797
Fixed assets	1,719	—
Total	$ 374,735	$ 3,105

SFAS No. 121 Impairment of Assets Acquired from TTI As Restated	Impairment Charge for the year ended December 31, 2001	Remaining Value as of December 31, 2001
	(in thousands)	
Customer relationships	$ 204,016	$ 16,350
Developed technology	126,821	—
Workforce	59,831	2,381
Fixed assets	1,719	—
Total	$ 392,387	$ 18,731

In 2002, Sonus adopted SFAS No. 141, which resulted in a reclassification of all remaining workforce-related intangible assets into goodwill. As a result of the continuing and significant decline in the market for telecommunications equipment and pursuant to SFAS No. 144, *Accounting for the Impairment or Disposal of Long-lived Assets*, Sonus performed an impairment analysis of certain technology acquired from Linguateq. In addition, Sonus performed an impairment analysis on our remaining goodwill for both the TTI and Linguateq acquisitions pursuant to SFAS No. 142, *Goodwill and Other Intangible Assets*. The results of these analyses are summarized in the following table, in thousands:

	Year Ended December 31, 2002		
	Impairment charge, as Reported	Adjustments	Impairment charge, as Restated
TTI customer relationships	$ —	$ 7,669	$ 7,669
TTI goodwill	796	1,585	2,381
Linguateq developed technology and customer relationship	175	—	175
Linguateq goodwill	877	(152)	725
Total	$ 1,848	$ 9,102	$ 10,950

Stock–based Compensation

Sonus identified items in the calculation of stock–based compensation and related items that required adjustments to the stockholders' equity section of Sonus' balance sheet, and its stock–based compensation expense. These items pertain to errors involving the amortization and recapture of deferred compensation, the 2002 exchange of outstanding employee stock options, and intrinsic value charges for restricted stock and stock options grants and modifications.

Sonus previously adopted the accelerated method of amortizing all deferred compensation defined under FIN 28 *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. In the event of forfeiture of a stock–based award, FIN 44, *Accounting for Certain Transactions involving Stock Compensation, an interpretation of APB Opinion No. 25*, requires that compensation expense be adjusted to recapture the compensation expense previously recorded related to unvested stock–based awards, in the period of forfeiture. Sonus previously had not recorded recapture of any such excess compensation expense upon the forfeiture of a stock–based award upon employee termination. As a result, Sonus has decreased stock–based compensation by $4,926,000 in 2002 and $3,179,000 in 2001, in these restated financial statements, which includes the recapture of excess compensation expense related to the items discussed in the following two paragraphs.

Sonus also determined that option grants made to certain newly hired employees had intrinsic value on the date of grant. APB No. 25, *Accounting for Stock Issued to Employees*, requires that such intrinsic value be recorded as deferred stock–based compensation and amortized over the vesting period. Previously, Sonus had not recorded any deferred stock–based compensation expense for these grants, and Sonus is now recording an adjustment of $1,215,000 to deferred compensation and additional paid–in–capital in 2001. As a result and under our policy of amortization under FIN 28, Sonus has increased stock–based compensation expense by $380,000 in 2002 and $408,000 in 2001, in these restated financial statements.

Sonus recorded employee deferred stock–based compensation prior to our initial public offering and in connection with its acquisition of TTI, and established a policy to amortize these amounts on an accelerated method under FIN 28. Sonus determined as a result of its review and analysis that the deferred stock–based compensation related to one category of employees was incorrectly amortized using the straight–line method and has made adjustments to consistently apply the FIN 28 method. As a result, Sonus decreased stock–based compensation by $193,000 in 2002 and increased such compensation by $1,690,000 in 2001, in these restated financial statements.

In October 2002, Sonus commenced an offer to exchange outstanding employee stock options for new stock options to be granted by it. Sonus had previously recorded deferred stock–based compensation for options issued prior to its initial public offering, and in conjunction with the exchange offer reversed any remaining unamortized deferred compensation to capital in excess of par value. Sonus has determined as a result of its review and analysis that, in accordance with FIN 44, Sonus should have expensed any remaining deferred stock–based compensation associated with options exchanged under this offer. As a result, Sonus has recognized additional stock–based compensation expense of $562,000 for 2002.

Sonus has determined that it improperly calculated deferred stock–based compensation and the related amortization associated with the restricted stock issued under the TTI Retention Plan. As a result, Sonus has also recorded an increase in 2002 of $1,353,000 and a decrease in 2001 of $739,000 to stock–based compensation expense to reflect the amortization of deferred stock–based compensation that should have been recorded.

Sonus also determined that it improperly calculated stock–based compensation expense for any intrinsic value associated with the modification of certain stock options and restricted stock to accelerate the vesting of a portion or all of these awards in connection with certain employee terminations. These adjustments resulted in increases in stock–based compensation expense of $200,000 in 2002 and $452,000 in 2001.

The following table is a summary of stock–based compensation restatement adjustments by type for the periods indicated, in thousands:

	Year ended Dec. 31, 2002	Year ended Dec. 31, 2001
Stock–based Compensation Adjustments—increase/(decrease) for:		
Recapture of compensation expense in connection with employee terminations	$ (4,926)	$ (3,179)
Amortization related to the intrinsic value of options granted to new employees	380	408
Adjusted amortization under accelerated method prescribed by FIN 28	(193)	1,690
Compensation charge related to options cancelled under Exchange Program	562	—
Amortization related to restricted stock issued in connection with TTI Retention Plan	1,353	(739)
Charge for modification in connection with employee terminations	200	452
Total Stock–based Compensation Restatement Adjustments	$ (2,624)	$ (1,368)

As described in Note 1 (m) to Sonus' consolidated financial statements, Sonus calculated the fair value of its stock options and the options under its employee stock purchase plan for disclosure purposes as required under SFAS No. 123, *Accounting for Stock–Based Compensation.* These calculations depend, among other factors, on the characteristics of Sonus' ESPP and options with intrinsic value at the grant date. Sonus' calculation did not properly consider these two items.

Sonus has also identified and recorded certain adjustments related to certain stock option activity that had not been previously accounted for or had been previously accounted for in an incorrect period. As a result, Sonus has made adjustments to the summary of stock option activity in Note 14 to its consolidated financial statements.

Inventory Reserves

As of December 31, 2002 and 2001 Sonus' originally reported excess, obsolete and evaluation reserve balances were $17,784,000 and $9,629,000, respectively. Sonus has determined that its excess, obsolete and evaluation reserve balances were not consistently calculated and, as a result of its review of these reserves and consideration of contemporaneous facts and circumstances, Sonus increased its reserves and charged cost of product revenues by $522,000 and $3,297,000 as of and for the years ended December 31, 2002 and 2001.

Other Balance Sheet Adjustments

Sonus identified certain customer checks received by it prior to the end of fiscal year 2002, which were deposited after the reporting period and not recorded in the period received. Accordingly, Sonus has increased its cash and cash equivalents and deferred revenue balances by $6,971,000 as of December 31, 2002.

Sonus previously did not record deferred revenue for product shipments and related services for which customers had been invoiced but for which no revenue was recognized and for which payment had not been collected. In this restatement, customer billings for which Sonus has a contractual right to invoice and collectibility is probable have been recorded as accounts receivable on the balance sheet, with a corresponding increase to deferred revenue. Accounts receivable and deferred revenue have increased by $90,000 at December 31, 2002.

Sonus previously reported customer deposits as accrued liabilities. As restated, Sonus has determined that it should report customer deposits as deferred revenue rather than accrued expenses. Accordingly, deferred revenue has increased and accrued liabilities have decreased by $7,240,000 as of December 31, 2002.

Other Statement of Operations Adjustments

As described in Note 1 (q) to Sonus' consolidated financial statements, Sonus calculated the weighted average common shares outstanding utilized in the determination of loss per share in accordance with the treasury stock method as required under SFAS No. 148, *Earnings Per Share.* Sonus' calculation did not properly consider certain activity and, accordingly, Sonus has modified the weighted average common shares outstanding for 2002 and 2001.

Summary of Restatement Items

The following condensed consolidated statements of operations for the years ended December 31, 2002 and 2001, on a comparative basis, summarize the effects of the restatement adjustments on various line items of Sonus' statements of operations for the periods indicated.

Condensed Statements of Operations
As Reported and As Restated
(In thousands, except per share data)

	Year Ended December 31, 2002			Year Ended December 31, 2001		
	As Reported	Adjustments	As Restated	As Reported	Adjustments	As Restated
Revenues	$ 62,558	$ 31,359	$ 93,917	$ 173,199	$ (44,399)	$ 128,800
Cost of revenues	40,302	11,274	51,576	75,698	(12,920)	62,778
Gross profit	22,256	20,085	42,341	97,501	(31,479)	66,022
Operating expenses	92,044	25,370	117,414	747,940	(41,350)	706,590
Loss from operations	(69,788)	(5,285)	(75,073)	(650,439)	9,871	(640,568)
Interest income, net	1,318	—	1,318	5,007	(58)	4,949
Loss before income taxes	(68,470)	(5,285)	(73,755)	(645,432)	9,813	(635,619)
Provision for income taxes	—	86	86	—	—	—
Net loss	$ (68,470)	$ (5,371)	$ (73,841)	$ (645,432)	$ 9,813	$ (635,619)
Net loss per share	$ (0.36)	$ (0.03)	$ (0.39)	$ (3.74)	$ 0.06	$ (3.68)

(3) Restructuring Charges

Commencing in the third quarter of fiscal 2001 and extending through fiscal 2002, in response to unfavorable business conditions primarily caused by significant reductions in capital spending by telecommunications service providers, Sonus implemented restructuring actions designed to reduce expenses and align its cost structure with its revised business outlook. The restructuring actions included worldwide workforce reductions, consolidation of excess facilities and the write–off of inventory and purchase commitments.

2002 Restructuring Activity

Sonus' restructuring activities for fiscal 2002 are summarized as follows in thousands:

	2002 Activity							
	Restructuring Charges	Cash Payments	Adjustments	Dec. 31, 2002 Accrual Balance	Cash Payments	Dec. 31, 2003 Accrual Balance	Current Portion	Long–term Portion
				As Restated				
Workforce reduction	$ 5,282	$ (4,748)	$ —	$ 534	$ (534)	$ —	$ —	$ —
Consolidation of facilities	3,332	(1,002)	(116)	2,214	(1,071)	1,143	344	799
Sub–total	8,614	(5,750)	(116)	2,748	(1,605)	1,143	344	799
Write–off (benefit) of purchase commitments	2,408	(1,333)	(735)	340	(300)	40	40	—
Total	$ 11,022	$ (7,083)	$ (851)	$ 3,088	$ (1,905)	$ 1,183	$ 384	$ 799

The remaining cash expenditures relating to the consolidation of excess facilities are expected to be paid through 2008. The remaining purchase commitment obligations were paid in the first quarter of fiscal 2004.

(a) Workforce reduction

The restructuring actions in fiscal 2002 resulted in a reduction of Sonus' workforce by approximately 230 employees, or 39%. The affected employees were entitled to severance and other

benefits for which Sonus recorded a charge of $5,282,000 in fiscal 2002. In addition in fiscal 2002, Sonus recorded non–cash, stock based compensation expense of $1,466,000 related to the write–off of deferred compensation associated with shares and options held by terminated employees.

(b) Consolidation of excess facilities

Sonus recorded a net restructuring charge in fiscal 2002 of $3,216,000 for the consolidation of excess facilities, which is included on the balance sheet in accrued restructuring expenses and long–term obligations. The accrual for the consolidation of excess facilities was determined assuming no sublease income.

(c) Write–off (benefit) of inventory and purchase commitments

During fiscal 2002, Sonus recorded additional cost of revenues of $6,130,000, consisting of $4,457,000 for the write–off of inventory determined to be excess and obsolete and $1,673,000 for materials that were committed to be purchased from third–party contract manufacturers and suppliers under purchase commitments, but that were in excess of required quantities. The charge for purchase commitments was recorded on the balance sheet as accrued restructuring expenses.

2001 Restructuring Activity

Sonus' restructuring activities for fiscal 2001 are summarized as follows in thousands:

	2001 Activity				2002 Activity						
	Initial Restruc. Charges	Cash Payments	Non–Cash Benefit	Dec. 31, 2001 Accrual Balance	Cash Payments	Adjustments	Dec. 31, 2002 Accrual Balance	Cash Payments	Dec. 31, 2003 Accrual Balance	Current Portion	Long–term Portion
				As Restated			As Restated				
Workforce reduction	$ 3,509	$ (2,976)	$ —	$ 533	$ (533)	$ —	$ —	$ —	$ —	$ —	$ —
Consolidation of facilities and other charges (benefit)	20,369	(1,116)	(16,557)	2,696	(1,366)	(759)	571	(390)	181	181	$ —
Total	$ 23,878	$ (4,092)	$ (16,557)	$ 3,229	$ (1,899)	$ (759)	$ 571	$ (390)	$ 181	$ 181	$ —

Remaining cash expenditures relating to the consolidation of excess facilities and other miscellaneous charges are expected to be paid by the second quarter of fiscal 2004.

(a) Workforce reduction

The restructuring actions in fiscal 2001 resulted in the reduction of Sonus' workforce by approximately 150 employees, or 21%. The affected employees were entitled to severance and other benefits for which Sonus recorded a charge of $3,509,000 in fiscal 2001. In addition in fiscal 2001, Sonus recorded non–cash stock–based compensation expenses of $19,273,000 related to the write–off of deferred compensation associated with shares and options held by terminated employees.

(b) Consolidation of excess facilities and other charges (benefit)

Sonus recorded a restructuring charge in fiscal 2001 of $20,369,000 for the consolidation of excess facilities and other miscellaneous charges, which is included on the balance sheet in accrued restructuring expenses and long–term obligations. The accrual for the consolidation of excess facilities was determined assuming no sub–lease income.

In March 2002, Sonus' TTI subsidiary reduced its lease commitments for excess space in its Texas facilities in exchange for a one–time payment of $835,000 to a landlord and a guarantee by Sonus of TTI's rents owed through April 2003, the remainder of the revised lease term. As the reduction in lease commitments was estimable at December 31, 2001, Sonus recorded the restructuring benefit of $16,557,000 in fiscal 2001.

(4) Write–off of Goodwill and Purchased Intangible Assets

In accordance with SFAS No. 142, in response to unfavorable business conditions, Sonus re–evaluated the fair value of goodwill established in connection with its acquisitions of TTI and Linguatec in fiscal 2001 (Notes 5 and 6) with the assistance of an independent appraiser. The key assumption used in evaluating the value of intangible assets was forecasted revenues and related profit margin related to remaining customers acquired as a result of the acquisitions. Revenue and profit margin forecasts had declined significantly compared to expectations as of the acquisition date. As a result, recorded an aggregate non–cash impairment charge of $10,950,000 in fiscal 2002 for the write–off of the remaining goodwill established in connection with those acquisitions.

In fiscal 2001, in light of negative industry and economic conditions, a general decline in technology valuations and our decision to discontinue the development and use of certain acquired technology, Sonus performed an assessment of the carrying value of the goodwill and purchased intangible assets recorded in connection with our acquisition of TTI. The key assumptions used in evaluating the carrying value of intangible assets and goodwill included the allocation of goodwill proportionately to the identified intangible assets, significant declines in forecasted revenues and related profit margins related to remaining customers acquired as result of the acquisition, and a significant decline in the number of remaining employees from the acquired company. As a result, in accordance with SFAS No. 121, Sonus recorded a non–cash impairment charge of $392,387,000 in fiscal 2001 for the write–off of goodwill and certain purchased intangible assets because the estimated undiscounted future cash flows of these assets was less than the carrying value.

(5) Acquisition of telecom technologies, inc.

In January 2001, Sonus acquired privately–held TTI. Upon the closing of this acquisition, an aggregate of 10,800,000 shares of Sonus common stock (Merger Shares) were exchanged for all outstanding shares of TTI common stock. Of the 10,800,000 shares issued to the TTI stockholders, 1,200,000 shares were placed into escrow as security for indemnity obligations that were released to TTI stockholders on January 18, 2002. In addition to the Merger Shares, the TTI stockholders received in fiscal 2001, 4,200,000 additional shares of Sonus common stock upon the achievement of certain specified business expansion and product development milestones. Sonus also issued contingent awards of 3,000,000 shares of common stock under the 2000 Retention Plan to certain former TTI employees who became employees of Sonus (Note 14 (d)).

The acquisition of TTI was accounted for using the purchase method of accounting in accordance with APB No. 16, *Business Combinations*. Accordingly, the total purchase price was allocated to the assets acquired and liabilities assumed based upon their estimated fair values. The purchase price was determined by using the average market value of Sonus common stock for the period from two days before to two days after the announcement of the TTI acquisition ($41.61 per share) to value the Merger Shares at the closing date and adding the fair value of liabilities assumed and expenses of the acquisition. Additionally, since the closing date, the purchase price was increased as the 4,200,000

shares of common stock that were subject to milestone conditions were earned. The final purchase price was computed as follows, in thousands:

Fair market value of shares issued	$	527,001
Liabilities assumed		19,809
Acquisition expenses		5,766
	$	552,576

In accordance with APB No. 16 and with the assistance of valuation experts, the final purchase price was allocated to the tangible and intangible assets acquired based upon their fair values as follows, in thousands:

Tangible assets	$	9,392
Intangible assets:		
Workforce and developed technology		20,900
Customer relationships		24,200
In-process research and development		40,800
Deferred compensation related to unvested stock options		22,600
Goodwill		434,684
	$	552,576

Sonus engaged a third party appraiser to conduct a valuation of the tangible and intangible assets and to assist in the determination of the useful lives for such assets. Based on the results of the appraisal, $40,800,000 was allocated to in-process research and development, which was expensed in fiscal 2001. The amounts allocated to assembled workforce, developed technology, customer relationships and goodwill were planned to be amortized over their estimated useful lives of three to five years. During the years ended December 31, 2003, 2002 and 2001, amortization of goodwill and purchased intangible assets for the TTI acquisition was $2,408,000, $3,871,000 and $70,384,000. In fiscal 2002 and 2001, Sonus recorded non-cash impairment charges of $10,050,000 and $392,387,000 for the write-off of TTI goodwill and certain purchased intangible assets (Note 4). Deferred compensation was computed based on the intrinsic value of the unvested TTI stock options assumed by Sonus and is being expensed over the remaining vesting period of up to four years.

The valuation of in-process research and development was determined using the income method. Revenue and expense projections for the in-process development project were prepared by the management of Sonus through 2009 and the present value was computed using a discount rate of 23%. There was no alternative future use for the in-process technology. The assumptions used for the valuation of in-process research and development are the responsibility of management.

Pro Forma Information

The following unaudited pro forma information presents a summary of the consolidated results of operations of Sonus and TTI as if the acquisition had occurred on January 1, 2001. The pro forma adjustments exclude the one-time write-off of TTI in-process research and development for the year ended December 31, 2001, in thousands, except per share data.

Revenues	$	129,134
Net loss		(596,398)
Basic and diluted net loss per share	$	(3.44)

The pro forma results are not necessarily indicative of what would have occurred if the acquisition had been in effect for fiscal 2001. In addition, they are not intended to be a projection of future results and do not reflect any synergies from combining operations.

(6) Acquisition of Certain Assets of Linguateq, Inc.

In July 2001, Sonus completed the acquisition of certain intellectual property and other assets of privately–held Linguateq Incorporated. Linguateq was a provider of data distribution and billing application software for both next generation and legacy networks. The acquisition of certain intellectual property and other assets was accounted for using the purchase method of accounting in accordance with SFAS No. 141, *Business Combinations*. The purchase price was determined by using the average market value of Sonus common stock for the period from two days before to two days after the terms were agreed upon for the acquisition ($21.84 per share) to value the 221,753 Sonus common shares issued to the Linguateq stockholders at the closing date and adding payments to employees and vendors and expenses of the acquisition. The final purchase price was been computed as follows, in thousands:

Fair market value of shares issued	$	4,843
Payments to employees and vendors		241
Acquisition expenses		141
	$	5,225

In accordance with SFAS No. 142, and with the assistance of valuation experts, the purchase price was allocated to the intangible assets acquired based upon their fair values as follows, in thousands:

Intangible assets:		
Developed technology and customer relationships	$	700
In–process research and development		3,800
Goodwill		725
	$	5,225

Sonus engaged a third party appraiser to conduct a valuation of the intangible assets and to assist in the determination of useful lives for such assets. Based on the results of the appraisal, $3,800,000 was allocated to in–process research and development, which was expensed in fiscal 2001. During the years ended December 31, 2002 and 2001, amortization of purchased intangible assets for Linguateq was $358,000 and $167,000. In fiscal 2002, Sonus recorded a non–cash impairment charge of $900,000 for the write–off of Linguateq goodwill (Note 3).

The valuation of in-process research and development was determined using the income method. Revenue and expense projections for the in-process development project were prepared by the management of Sonus through 2006 and the present value was computed using a discount rate of 40%. In the event that the project was not completed and technological feasibility was not achieved, there was no alternative future use for the in-process technology. The assumptions used for the valuation of in-process research and development are the responsibility of management.

Pro forma information related to the consolidated results of operations of Sonus and Linguateq were not material for 2001 and 2000.

(7) Other Balance Sheet Data

(a) Accounts Receivable

Accounts receivable consists of the following, in thousands:

	December 31, 2003	December 31, 2002 As Restated
Earned accounts receivable	$ 11,326	$ 4,873
Unearned accounts receivable	12,713	90
Accounts receivable, gross	24,039	4,963
Allowance for doubtful accounts	(285)	(341)
Accounts receivable, net	$ 23,754	$ 4,622

(b) Inventory

Inventory consists of the following, in thousands:

	December 31, 2003	December 31, 2002 As Restated
On-hand final assemblies and finished goods inventory	$ 11,366	$ 12,292
Unearned inventory	10,173	10,441
Evaluation inventory	6,014	6,022
Inventory, gross	27,553	28,755
Excess, obsolete and evaluation reserve	(13,814)	(18,306)
Inventory, net	$ 13,739	$ 10,449

(c) Property and Equipment

Property and equipment consists of the following, in thousands:

	Estimated Useful Life	December 31, 2003	December 31, 2002 As Restated
Equipment and software	2–3 years	$ 50,966	$ 47,797
Furniture and fixtures	3–5 years	579	579
Leasehold improvements	Life of lease	2,592	2,574
		54,137	50,950
Less accumulated depreciation		(49,128)	(39,404)
Property and equipment, net		$ 5,009	$ 11,546

(d) Accrued Expenses

Accrued expenses consists of the following, in thousands:

	December 31, 2003	December 31, 2002 As Restated
Employee compensation and related costs	$ 4,351	$ 4,459
Employee stock purchase plan	821	515
Professional fees	6,208	2,106
Royalties	4,672	4,964
Warranty	2,500	1,300
Other	3,613	3,145
	$ 22,165	$ 16,489

(e) Deferred Revenue

Deferred revenue consists of the following, in thousands:

	December 31, 2003	December 31, 2002 As Restated
Maintenance and support contracts	$ 39,104	$ 24,832
Customer deposits	35,183	34,830
Unearned revenue	12,713	90
Total deferred revenue	87,000	59,752
Less current portion	(62,698)	(51,728)
	$ 24,302	$ 8,024

(8) Valuation and Qualifying Accounts

(a) Allowance for Doubtful Accounts

The following table sets forth activity in Sonus' allowance for doubtful accounts, in thousands:

Year ended December 31:	Balance at beginning of year	Charges (benefits) to costs and expenses	(Write–offs)/ recoveries	Balance at end of year
2003	$ 341	$ 170	$ (226)	$ 285
2002 (As Restated)	2,082	(1,683)	(58)	341
2001 (As Restated)	1,000	1,082	—	2,082

(b) Inventory Reserve

The following table sets forth activity in Sonus' inventory reserve, in thousands:

Year ended December 31:	Balance at beginning of year	Charges to costs and expenses	(Write–offs)/ recoveries	Balance at end of year
2003	$ 18,306	$ 5,806	$ (10,298)	$ 13,814
2002 (As Restated)	12,925	9,369	(3,988)	18,306
2001 (As Restated)	3,806	9,301	(182)	12,925

(c) Warranty Reserve

The following table sets forth activity in Sonus' warranty reserve accrual, included in accrued expenses, in thousands:

Year ended December 31:	Balance at beginning of year	Charges to costs and expenses	Deductions	Balance at end of year
2003	$ 1,300	$ 1,200	$ —	$ 2,500
2002 (As Restated)	2,100	—	(800)	1,300
2001 (As Restated)	1,543	557	—	2,100

(9) Income Taxes

Sonus provides for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes.* Deferred tax assets and liabilities are determined based on differences between the financial statement and tax bases of assets and liabilities using enacted tax rates.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and the amounts for income tax purposes. A valuation allowance has been recorded for the net deferred tax asset due to the uncertainty of realizing the benefit of this asset.